



S u m m a r y A n n u a l R e p o r t 2 0 0 0

Year Ended June 30, 2000

Louisiana State Employees' Retirement System

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Louisiana State Employees' Retirement System



Summary Annual Report 2000

Year Ended June 30, 2000

December 2000

Dear Members:

Presented in the following pages is the 2000 Summary Annual Report (Popular Report) for the Louisiana State Employees' Retirement System (LASERS). This report continues our efforts to provide understandable answers to common questions such as what is LASERS, where does LASERS get its funding and how is that money spent.

The Louisiana Legislature established LASERS in 1946 as a trust fund to provide retirement and other benefits for state officers, employees, and beneficiaries. For year ended June 30, 2000, LASERS had revenues of \$1,056,410,188 with expenditures of \$466,684,783. This performance resulted in our Trust Fund total assets growing to \$6,635,251,677 at year end. Additional detailed information is provided in this report, including the financial statements.

Our actuarial rate of return on investments was 13.78% for 2000. These results bring LASERS' total funding level to 74.7%, up from 73.5% at June 30, 1999. LASERS' actuarial funding percentage continues to increase even though the number of retirees and the amounts paid to the retirees continue to grow. We remain on schedule to be fully funded by 2029.

In 1999, legislation was passed to provide a permanent mechanism and guidelines for cost-of-living adjustments (COLA), which further enhance benefits to our members. It provided a 1.6% increase for our retirees beginning July 1999 at an actuarial cost (over the retiree's lifetime) of \$42,915,713. A 2% COLA with an actuarial cost of \$57,934,622 was approved during the fiscal year with payments beginning July 2000. The Experience Account, used to fund COLA's, has available for future cost-of-living increases a balance of \$507,541,113 as of June 30, 2000.

Success in our investment strategy and performance is necessary for LASERS to meet its goals. To improve our overall performance, LASERS has embarked on a comprehensive long-term strategic plan for investments that seeks to enhance its position comparable to other retirement systems. A key component of the plan is the reduction of investment management fees and brokerage transaction costs while enhancing internal controls. This plan will likely lead to increased use of low-cost passive investment strategies that reduce the volatility of actual returns with respect to LASERS' policy returns.

LASERS is taking advantage of its existing resources to manage most of the passive strategies internally, resulting in further cost savings and efficiencies. LASERS is also evaluating various risk management systems to better

manage total portfolio volatility as well as the volatility of LASERS' funded ratio. This plan will likely result in the continued increased use of LASERS' existing resources to manage passive strategies internally.

The 1999 Louisiana Legislature passed into law the creation of an Optional Retirement Plan (ORP) to be administered by LASERS. The ORP was created for certain unclassified state employees as defined by state statute and who would otherwise be eligible to become members of LASERS' defined benefit plan. The ORP was implemented on June 26, 2000 and began accepting applications for membership on July 1, 2000. The eligible members who join the ORP shall not be entitled to any benefits or maintain any service credit in the defined benefit plan. The ORP allows its members to place their contributions with a provider approved by the LASERS' Board of Trustees and maintain direct investment decision-making through their provider.

The following pages also provide information on membership composition, sources of revenue and distribution of operating expenses, investment strategy, actuarial rates of return, and LASERS' experience account, which provides a funding source for cost-of-living raises for retirees.

We submitted our 1999 Summary Annual Report to the Government Finance Officers Association (GFOA) for national certification through their Popular Annual Financial Report awards program. We are pleased to announce that LASERS was one of three retirement systems and 72 governmental organizations in the United States to meet the standards as set forth by GFOA.

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the Louisiana State Employees' Retirement System for its Popular Annual Financial Report for the fiscal year ended June 30, 1999. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

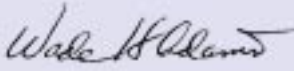
An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

We trust you will find the information in our 2000 Summary Annual Report, as well as the additional sources of information provided, to be both interesting and informative. We look forward to being of continued service to you, our members.

Sincerely,


Glenda Chambers
Executive Director


Robert Borden, CFA
Chief Investment Officer


Wade H. Adams, CPA
Chief Fiscal Officer

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Award for Outstanding Achievement in Popular Annual Financial Reporting

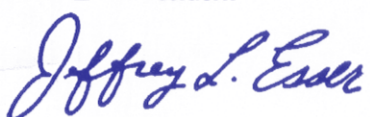
PRESENTED TO

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

**For the fiscal year ending
June 30, 1999**




President


Executive Director

Membership Composition

Active and Inactive Members

Membership in LASERS is mandatory for all state employees whose employing agencies are LASERS participants, except those individuals specifically exempted by state law. On June 30, 2000, LASERS' membership totaled 126,784. Of these, 66,642 were active members, 1,055 were vested/inactive, 26,469 were terminated/non-vested.

There are different contribution and retirement eligibility requirements for special groups of employees. These groups include: Correctional Officers, Wildlife and Fisheries Agents, Judges and Officers of the Court, and Legislators and certain legislative employees.

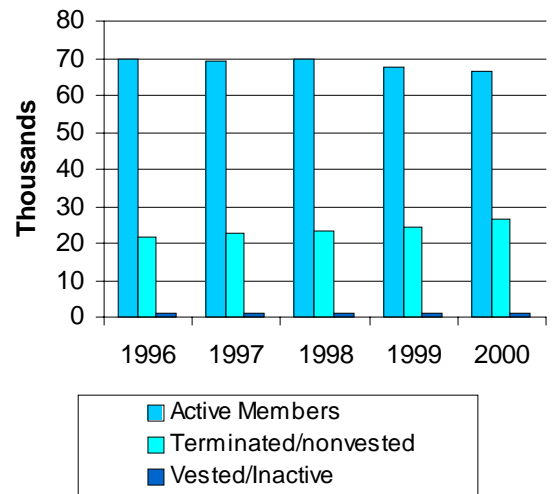
Number of Benefit Recipients

As the graph to the right shows, the number of benefit recipients is rising yearly. In 2000, there were 23,900 regular retirees, and 6,297 were beneficiary, survivor, or disability recipients. In addition, there were 2,421 participants in the Deferred Retirement Option Plan (DROP) who were not yet receiving monthly benefits. LASERS' average monthly benefit in 2000 was \$1,093, an increase from \$1,061 in 1999.

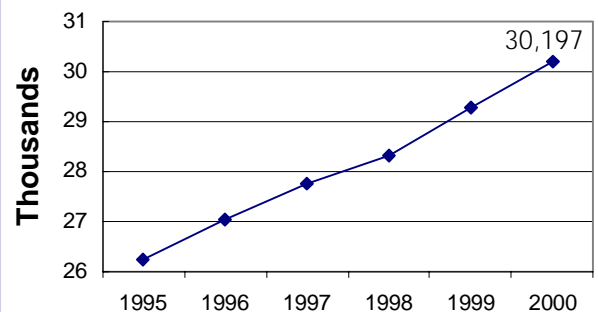
At LASERS, there are four types of benefits. They are regular benefits, disability benefits, survivor benefits, and DROP benefits. To be eligible to receive retirement benefits, regular members must meet one of the following requirements:

- ☛ 30 years service at any age
- ☛ 25 years service at age 55
- ☛ 10 years service at age 60
- ☛ 20 years service, any age, with an actuarially reduced benefit

Active and Inactive Members

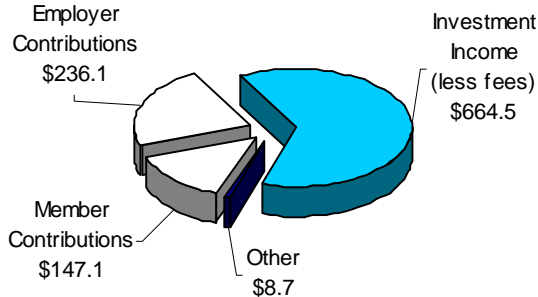


Number of Benefit Recipients



Sources and Distribution of Total Revenue

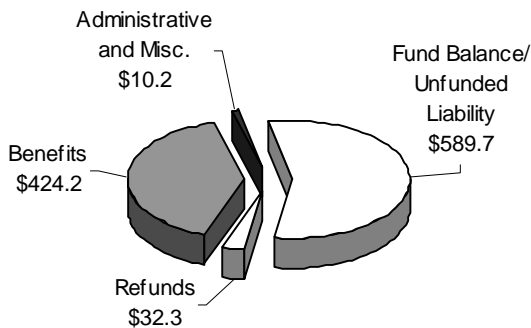
Revenue - By Source
(\$ in millions)



Sources of Your Future Benefits

LASERS' total earnings for the fiscal year was approximately \$1.1 billion. LASERS has three main sources of revenue: investment income, employer contributions, and member contributions. In 2000, investment income was the largest revenue source, which means that the majority of your retirement benefits are funded by LASERS' investments.

Distribution of Total Revenue
(\$ in millions)



Distribution of Total Revenue

In 2000, approximately \$466.7 million of total revenue was used to pay expenditures as shown in the graph to the left. Of total revenue, 43% was used to pay benefits and refunds. Administrative and miscellaneous costs were less than 1%. See the table below for a comparison of the actual administrative costs versus the budgeted amounts.

Administrative Expenses:

Salaries and Related Benefits
Travel
Operating Services
Supplies
Professional Services
Total Administrative Expenses:

Actual

\$ 3,730,707
153,349
1,425,369
104,835
1,590,620
<u>\$ 7,004,880</u>

Budget

\$ 3,950,052
245,819
2,166,857
167,960
1,719,489
<u>\$ 8,250,177</u>

Funding Schedule

The remaining 56%, or \$589.7 million was added to our 1999 fund balance of \$6.0 billion, bringing the total to approximately \$6.6 billion. There are currently insufficient funds to pay 100% of estimated future benefits, creating an "unfunded actuarial liability" (UAL). The UAL resulted from periodic underfunding prior to passage of Act 81 of 1988, which mandated elimination of the UAL by 2029. On June 30, 2000, LASERS' funding level was 74.7%.

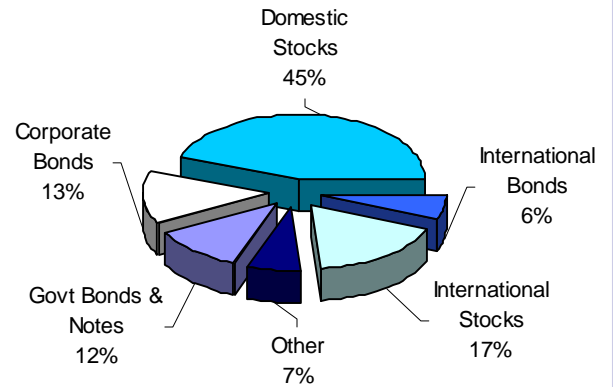
Investment Strategy

Your Trust Fund total assets have grown to \$6,635,251,677. LASERS is committed to maintaining a broadly diversified portfolio while surpassing its target 8.25% actuarial rate of return for the least possible amount of risk. This diversification allowed LASERS to increase its funded ratio while continuing to grant Cost-of-Living Adjustments (COLAs).

In fact, LASERS' investment portfolio has returned an average actuarial investment rate of 13.24% over the last five years.

To provide additional security of your investments, LASERS has established certain restrictions. For example, we cannot invest more than 65% of total assets in the stock markets and cannot hold more than 5% of any one company's outstanding stock. Guidelines such as these provide the structure for a successful portfolio.

Diversity of 2000 Investments

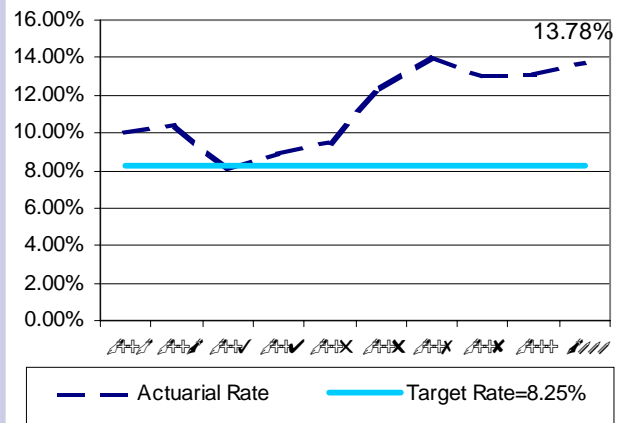


Actuarial vs. Target Rate of Return

LASERS has surpassed its 8.25% target rate of return in nine of the past ten years. During 1999-2000, LASERS' actuarial rate of return was 13.78%.

In years in which the actuarial rate of return exceeds the target rate of return, one-half of the amount over the target rate of return goes to reduce the unfunded actuarial liability (UAL), while the other half is used to fund Cost-of-Living Adjustments (COLAS) for LASERS' retirees. The UAL is now 74.7% funded and LASERS remains on target to be fully funded by 2029.

Rates of Return



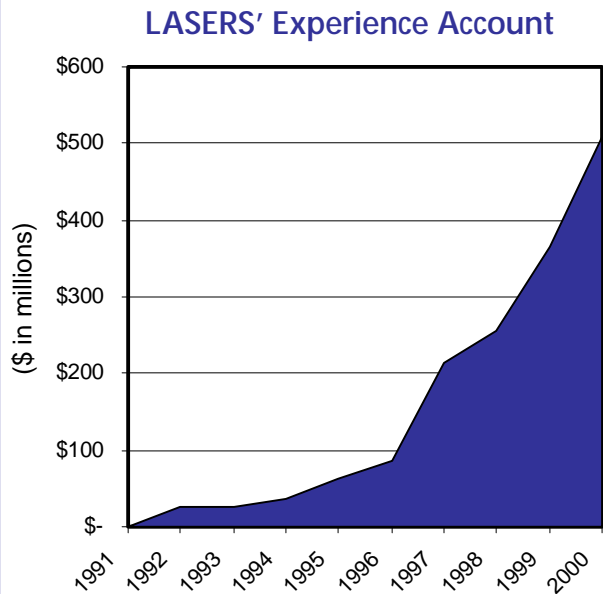
Experience Account

In 1992, the Legislature enacted laws to provide a separate actuarial fund to accumulate 50% of the excess investment gain or loss relative to the actuarial valuation rate of 8.25%.

In 1999, additional legislation provided specific guidelines of how this fund shall be used to grant a Cost-of-Living Adjustment (COLA) to retirees, survivors, and beneficiaries.

The approved COLA amount is based on the consumer price index for the previous year, not to exceed 2% annually. This can only be done when the balance in the Experience Account is sufficient to fully fund such COLA on an actuarial basis (for the remaining life expectancy of all eligible retirees). The Experience Account was at a sufficient level in 2000 to provide a 2% COLA. After this COLA was provided, the Experience Account, as of June 30, 2000, was \$507,541,113. The graph shows the history of the accumulation of this fund.

Each year, the actuarial cost of that year's COLA is deducted from the amount to be added to the Experience Account; therefore the balance can be used for future benefits.



COLAs Provided by Experience Account

Prior to the 1999 Act, the Experience Account has also been used to provide a COLA in 1996 and in 1998. Those COLAs were based on other criteria rather than a percentage of gross benefits. From 1980 until the establishment of the Experience Account in 1992, the Board and Legislature approved COLAs on a case-by-case basis. From 1980, such COLAs were given in 1980, 1981, 1984, 1986 and 1991.

YEAR	1st YEAR PAYMENTS (\$ in millions)	ACTUARIAL COST (\$ in millions)	ELIGIBLE RECIPIENTS
1996	6.8	58.4	24,238
1998	13.0	90.0	22,494
1999	5.1	42.9	21,500
2000	5.5	57.9	21,969

For Your Information

This report condenses and simplifies our 2000 Comprehensive Annual Financial Report (CAFR) and is intended to be a supplement to the CAFR, not a replacement. The CAFR conforms to generally accepted accounting principles (GAAP). While the information for this report was taken from our CAFR, it is presented in a non-GAAP format for ease of understanding.

We have submitted our 2000 CAFR for review under the Government Financial Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting. Additionally, we have submitted this Summary Annual Report to the GFOA's Popular Annual Financial Report (PAFR) program. A PAFR is designed to present information regarding the financial condition of LASERS in a user-friendly format.

A complete copy of the CAFR can be reviewed at any parish library, or at the State Library in Baton Rouge. A complete copy may also be purchased for the actual reproduction costs by contacting LASERS' Fiscal Division.

The newly designed LASERS Web Site, <http://www.lasers.state.la.us>, contains additional details on each topic presented. It also contains more detailed information selected from our CAFR and our complete annual independent auditor's report. Check your public library for access to the Internet.

Membership Composition

www.lasers.state.la.us/about.htm

Financial

www.lasers.state.la.us/publicat.htm

Investments

www.lasers.state.la.us/Investments.htm

PREP Seminars and Publications

www.lasers.state.la.us/prep.htm

www.lasers.state.la.us/publicat.htm

Statement of Plan Net Assets

	<u>June 30, 2000</u>	<u>June 30, 1999</u>
ASSETS		
Cash and Cash Equivalents (at fair value)	<u>\$ 38,471,817</u>	<u>\$ 33,613,748</u>
Receivables:		
Employer Contributions	25,249,821	16,246,444
Member Contributions	15,733,495	10,055,069
Interest and Dividends	36,719,410	36,759,025
Investment Proceeds	17,278,810	78,061,317
Open Investment Contracts	3,255,124	166,183,868
Other	961,768	1,740,666
Total Receivables	<u>99,198,428</u>	<u>309,046,389</u>
Investments (at fair value):		
Short-term Investments - Domestic	77,006,786	53,850,549
Short-term Investments - International	-	27,682,128
U. S. Government Obligations	766,206,577	723,487,323
Bonds/Fixed Income - Domestic	849,445,497	786,967,309
Bonds/Fixed Income - International	377,791,083	493,529,244
Equity Securities - Domestic	2,918,192,099	2,701,915,925
Equity Securities - International	1,134,708,048	975,864,702
Real Estate Investments	49,125,215	67,281,259
Alternative Investments	319,409,320	117,148,756
Total Investments	<u>6,491,884,625</u>	<u>5,947,727,195</u>
Property and Equipment:		
Land	889,816	889,816
Building and Improvements	4,878,757	4,874,328
Equipment	7,571,061	7,314,400
	<u>13,339,634</u>	<u>13,078,544</u>
Accumulated Depreciation	(7,642,827)	(6,131,322)
Total Property and Equipment	<u>5,696,807</u>	<u>6,947,222</u>
TOTAL ASSETS	<u>6,635,251,677</u>	<u>6,297,334,554</u>
LIABILITIES		
Investment Commitments Payable	32,287,965	118,313,904
Accounts Payable - Open Investment Contracts	3,255,124	166,183,868
Accounts Payable and Other Accrued Liabilities	6,394,448	9,248,047
TOTAL LIABILITIES	<u>41,937,537</u>	<u>293,745,819</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 6,593,314,140</u>	<u>\$ 6,003,588,735</u>

Statement of Change in Plan Net Assets

	<u>June 30, 2000</u>	<u>June 30, 1999</u>
ADDITIONS		
Contributions:		
Employer Contributions	\$ 236,104,720	\$ 218,929,941
Member Contributions	147,090,812	135,479,230
Total Contributions	<u>383,195,532</u>	<u>354,409,171</u>
Investment Income:		
Net Appreciation in Fair Value of Investments	484,190,939	288,197,600
Interest and Dividends	198,044,924	195,863,544
Other Investment Income	1,615,725	2,215,401
	<u>683,851,588</u>	<u>486,276,545</u>
Less Investment Expense	19,295,553	16,071,796
Net Investment Income	<u>664,556,035</u>	<u>470,204,749</u>
Other Income	<u>8,658,621</u>	<u>9,175,049</u>
Total Additions	<u>1,056,410,188</u>	<u>833,788,969</u>
DEDUCTIONS		
Retirement Benefits	424,142,312	397,966,405
Refunds of Member Contributions	32,300,258	31,851,567
Administrative Expenses	7,004,880	6,011,305
Other	3,237,333	2,778,585
Total Deductions	<u>466,684,783</u>	<u>438,607,862</u>
NET INCREASE	589,725,405	395,181,107
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year	<u>6,003,588,735</u>	<u>5,608,407,628</u>
End of Year	<u>\$ 6,593,314,140</u>	<u>\$ 6,003,588,735</u>

